

**STATEMENT**

**BEFORE THE**

**U.S. HOUSE OF REPRESENTATIVES**

**COMMITTEE ON BUDGET**

**TOMMY G. THOMPSON**

**SECRETARY**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**FEBRUARY 26, 2003**

Good morning Mr. Chairman, Mr. Spratt, and members of the committee. I am honored to be here today to present to you the President's FY 2004 budget for the Department of Health and Human Services (HHS). I am certain you will find that, viewed in its entirety, our budget will help improve the health and safety of our Nation.

The President's FY 2004 budget request continues to support the needs of the American people by strengthening and improving Medicare and Medicaid, enhancing Temporary Assistance for Needy Families (TANF) and Foster Care; strengthening the Child Support Enforcement Program; and furthering the reach of the President's New Freedom Initiative.

The \$539 billion proposed by the President for HHS will enable the Department to continue its important work with our partners at the State and local levels and the newly created Department of Homeland Security. Working together, we will hold fast to our commitment to protect our Nation and ensure the health of all Americans. Many of our programs at HHS provide necessary services that contribute to the war on terrorism and provide us with a more secure future. In this area, I am particularly focused on preparedness at the local level, ensuring the safety of food products, and research on and development of vaccines and other therapies to counter potential bioterrorist attacks.

Our proposal includes a \$37 billion increase over the FY 2003 budget, or about 7.3 percent. The discretionary portion of the HHS budget totals \$65 billion in budget authority, which is an increase of \$1.6 billion, or about 2.6 percent. HHS' mandatory outlays total \$475.9 billion in this budget proposal, an increase of \$32.3 billion, or roughly 7.3 percent.

Your committee will set the framework for achieving many of the Administration's most important priorities. I am grateful for the close partnership we have enjoyed in the past, and I look forward to working with you on an aggressive legislative agenda to advance the health and well being of millions of Americans. Today, I would like to highlight for you the key issues in the President's budget.

### **Supporting the President's Disease Prevention Initiative**

One of the most important issues on which we can work together is disease prevention. We all have heard the disturbing news about the prevalence of diabetes, obesity and asthma that could be prevented through simple lifestyle changes. The statistics, I am sure, are as alarming to you as they are to me. For example, the incidence of diabetes and obesity among Americans is up sharply in the past decade, putting millions more Americans at higher risk for heart disease, stroke and other related medical conditions.

Diabetes alone costs the nation nearly \$100 billion each year in direct medical costs and leads to incalculable indirect economic costs, including disability, missed work and premature death.

Medical studies have shown that modest lifestyle changes -- such as getting more exercise and losing weight -- can reduce an individual's risks for developing these serious health conditions. For this reason the HHS budget, consistent with the President's HealthierUS effort, proposes a coordinated, Department-wide endeavor to promote a healthier lifestyle emphasizing prevention of obesity, diabetes, and asthma. The FY2004 budget includes a new investment of \$100 million for targeted disease prevention.

The proposed FY 2004 budget for the National Institutes of Health builds upon the doubling of the NIH budget that was completed in FY 2003, providing an increase of \$500 million from the previous year. NIH will be able to increase funds devoted to its research programs by \$1.9 billion, or 7.5 percent. In addition

### **Fighting Bioterrorism**

As Americans confront the realities of terrorism and hatred around us, it is imperative that the Federal Government be prepared to keep our citizens safe and healthy. HHS's \$3.6 billion bioterrorism budget substantially expands ongoing medical research, maintains State and local preparedness funding, and includes targeted investments to protect our food supply. The President's proposal significantly expands NIH research funding needed to develop vaccines and medicines that will make biologic agents much less effective as weapons. HHS and DHS will be working hand-in-hand to ensure that Americans have emergency access to stockpiles containing effective drugs, vaccines, and other biologics. HHS and the Department of Homeland Security, will spearhead the development of Project Bioshield. This project, which the President recently proposed, will bring together the resources of the United States government in an innovative effort to develop defenses against bioterror before they are ever needed. Project Bioshield will have three (3) major goals:

- Ensure sufficient resources are available to procure the next-generation countermeasures.

The Administration proposes a permanent, indefinite authority that will: a) provide the government with the flexibility needed to respond to changing threat information and science; b) establish a guaranteed funding source that will allow the government to purchase vaccines and other therapies as soon as experts believe they can be made safe

and effective; and c) spur the industry investment needed to produce these countermeasures by providing assurance that if they can produce a needed product, the government can and will purchase it.

- Speed up NIH research and advanced development. Provide more flexible contracting and procurement authorities for critical biodefense work.
- Make promising treatments available more quickly for use in emergencies. Establish a new FDA Emergency Use Authorization for promising medical countermeasures that are under development that provides greater flexibility in emergency situations than the current Investigational New Drug (IND) authority.

### **Improving the Nation's Health**

In an effort to improve the Nation's health, the budget includes initiatives to reduce drug-related medical costs and carry out the Best Pharmaceuticals for Children Act. The request for the Food and Drug Administration (FDA) includes \$13 million to increase Americans' access to safe, effective, and less expensive generic drugs. The budget also includes an additional \$30 million in NIH and FDA to expand Federal and private research to improve information for prescribing pharmaceuticals to children.

The HHS budget includes a series of improvements in the financing of childhood vaccines to meet three goals -- 1) improve vaccine access for children eligible for the Vaccines for Children program, 2) restore tetanus-diphtheria booster to the VFC program; and 3) build a national stockpile of childhood vaccines. To ensure against future shortages of childhood vaccines,

HHS will develop a strategic plan and implement a vendor-managed, 6-month supply of all childhood vaccines by 2006. In addition, Legislation will be proposed to improve access to VFC vaccines for children already entitled to them. The budget proposes to expand the number of access points for underinsured children – those whose private insurance does not cover the immunizations – by allowing them to receive their VFC vaccines at State and local public health clinics. I also propose to restore the tetanus and diphtheria booster to the VFC program by removing outdated price caps that are so low that vendors will not bid on VFC contracts.

The budget also contains \$100 million to begin working with industry to ensure the nation has an adequate supply of influenza vaccine in the event of a pandemic. Due to its short shelf life, we cannot stockpile influenza vaccine, and current manufacturing methods could not surge to meet the Nation's needs in a pandemic. Funds will be used for activities to ensure a year-round influenza vaccine production capacity and the development and implementation of rapidly expandable production technologies.

In FY 2003, we are completing a 5-year doubling of the budget of the National Institutes of Health (NIH). This year, we continue that commitment with a budget of \$27.9 billion, a net increase of \$549 million over last year. As a result of one-time projects being funded in fiscal year 2003, and not needing to be continued, NIH funding for research on larger scale projects will increase \$1.9 billion – 7.5% – and fund a record number of new and competing research grants.

We are investing \$50 million in a new program at AHRQ to increase investments in hospital information technology to improve patient safety. Of this amount, \$26 million will be used to focus on small and rural hospitals. Proven technologies like computerized physician order entry and automated medication dispensing systems improve the safety and quality of care.

### **Faith-Based and Community Initiatives**

In support of the President's Faith-Based and Community Initiative, the HHS FY2004 budget supports programs that promote positive relationships that link faith- and community-based organizations, State and local governments, and Federal partners to develop a shared picture for substance abuse treatment and positive youth development.

We are proposing to establish a new \$200 million drug treatment program. For some individuals, recovery is best assured when it is achieved in a program that recognizes the power of spiritual resources in transforming lives. Under this new program, individuals with a drug or alcohol problem who lack the private resources for treatment will be given the means to secure drug treatment services. The program will give them the ability to choose among a range of effective treatment options, including faith-based and community-based treatment facilities.

Another important program that helps some of our most vulnerable children is the Mentoring Children of Prisoners program. We are asking for funds to be increased to \$50 million, which would in turn be made available to faith-based, community-based, state and local governments and tribes, and public organizations for programs that provide supportive one-on-one relationships with caring adults to these children who are more likely to succumb to substance abuse, gang activity, early childbearing and delinquency. This down payment will help

approximately 30,000 adolescent children of prisoners receive some guidance, have positive role models, and give them a fighting chance to succeed. In addition, the budget request for the Compassion Capital Fund is \$100 million, an increase of \$65 million above the FY 2003 appropriation. These funds would continue to be used to provide technical assistance to faith- and community-based organizations to expand and emulate model social programs. These are just a few examples of the services that can be provided to those in need under this initiative.

### **Strengthening and Improving Medicare**

As we are all aware, our Nation's Medicare program needs to be strengthened and improved to fill the gaps in current coverage. We remain steadfastly committed to ensuring that America's seniors and individuals with disabilities can keep their current, traditional Medicare. The President has proposed numerous principles for Medicare enhancements to ensure that we are providing our seniors with the best possible care. The budget builds on those principles by dedicating \$400 billion over ten years to strengthen and improve Medicare, including providing access to subsidized prescription drug coverage, better private options and better insurance protection through a modernized fee-for-service program.

#### Prescription Drug Coverage

Ensuring that Medicare beneficiaries have access to needed prescription drugs is a top priority for the President and me. This budget proposes a prescription drug benefit that would be available to all beneficiaries, protect them against high drug expenditures, and would provide additional assistance through generous subsidies for low-income beneficiaries to ensure ready access to needed drugs. The Administration's prescription drug plan would offer beneficiaries a

choice of plans and would support the continuation of the coverage that many beneficiaries currently receive through employer-sponsored and other private health insurance.

### Medicare Choices

Medicare+Choice was introduced to provide beneficiaries with additional options for Medicare coverage. Over the past year, the Department has made significant strides in expanding beneficiaries' Medicare+Choice options by approving 33 new preferred provider organizations (PPOs) through a demonstration. However, due to a variety of factors, in many parts of the country, few other new plans have entered the program. More needs to be done to encourage plan participation. We believe that we should move away from administered pricing to set Medicare+Choice rates. The Administration believes that Medicare+Choice payments need to be linked to the actual cost of providing care. America's seniors and citizens with disabilities should have access to the same kind of reliable health care options others enjoy and that those choices should be provided through a market-based system in which private plans compete to provide coverage for beneficiaries. Those beneficiaries who select less costly options should be able to keep most of the savings. It is time we give our seniors the choice they have been promised in Medicare.

### Modernized Fee-for-Service

One of the basic tenets of our proposal to strengthen and improve Medicare is that seniors and individuals with disabilities deserve the same range of health care delivery choices as federal employees enjoy. These choices should reflect the care and service innovations incorporated into today's best health insurance plans. A strengthened and improved Medicare program would

rationalize cost-sharing for beneficiaries who need acute care. It would also eliminate cost sharing for preventive benefits and provide catastrophic coverage to protect beneficiaries against the high costs of treating serious illnesses.

### Medicare Appeals Reform

Our budget also includes \$129 million for the strengthening of the Medicare appeals process. The adjudicative function currently performed by the Administrative Law Judges at the Social Security Administration would be transferred to the Centers for Medicare and Medicaid Services (CMS). In addition, the Administration proposes several legislative changes to the Medicare appeals process that would give CMS flexibility to improve the appeals system. These changes will enable CMS to respond to beneficiaries' and providers' needs efficiently and effectively.

### **Strengthening and Improving Medicaid and SCHIP**

#### State Health Care Partnership Allotments

Mr. Chairman, as you know, states are confronting serious challenges in running their Medicaid programs. It is crucial that we do something now to stabilize Medicaid programs so we do not allow millions of Americans to go without health care. In the past year, 38 states have reduced services or eligibility and most states are currently considering other benefit or eligibility cutbacks. We want to give states another option. It is our responsibility to work together so that states can get the help they need in managing their health care budgets, while preventing further service and benefit cuts and expanding coverage for low income Americans.

Building on the success of the State Children's Health Insurance Program (SCHIP) and the Health Insurance Flexibility and Accountability (HIFA) demonstrations in increasing coverage while providing flexibility and reducing the administrative burden on States, the Administration proposes optional State Health Care Partnership Allotments to help States preserve coverage. Under this proposal, States would have the option of electing to continue the current Medicaid program or to choose partnership allotments. The allotment option provides States an estimated \$12.7 billion in extra funding over seven (7) years over the expected growth rate in the current Medicaid and SCHIP budgets. If a State elects the allotments, the federal portion of SCHIP and Medicaid funding would be combined and states would receive two individual allotments: one for long-term care and one for acute care. States would be required to maintain their current levels of spending on Medicaid and SCHIP, but at a lower rate of increase than the increase of the federal share.

States electing a partnership allotment would have to continue providing current mandatory services for mandatory populations. For optional populations and optional services, the increased flexibility of these allotments will allow each State to innovatively tailor its provision of health benefit packages for its low-income residents. For example, States could provide premium assistance to help families buy employer-based insurance. States could create innovative service delivery models for special needs populations including persons with HIV/AIDS, the mentally ill, and persons with chronic conditions without having to apply for a waiver. Another important part of the new plan would permit States to encourage the use of home and community based care without needing a waiver, thereby preventing or delaying institutional care. Let me stress that this is an OPTION we are proposing for States.

### New Freedom Initiative

One of the Administration's priorities is relying more on home and community based care, rather than institutional care for the elderly and disabled. The New Freedom initiative represents part of the Administration's effort to make it easier for Americans with disabilities to be more fully integrated into their communities. Under this initiative, we are committed to promoting the use of at-home and community-based care as an alternative to nursing homes.

It has been shown time and again that home care combines cost effective benefits with increased independence and quality of life for recipients. Because of this, we have proposed that the FY 2004 budget support a five-year demonstration called "Money Follows the Individual" Rebalancing Demonstration, in which the Federal Government will fully reimburse States for one year of Medicaid home and community –based services for individuals who move from institutions into home and community-based care. After this initial year, States will be responsible for matching payments at their usual Medicaid matching rate. The Administration will invest \$350 million in FY 2004, and \$1.75 billion over 5 years on this important initiative to help seniors and disabled Americans live in the setting that best supports their needs.

The Administration again proposes four demonstration projects as part of the President's New Freedom Initiative. Each promotes home and community-based care as an alternative to institutionalization. Two of the demonstrations are to provide respite services to caregivers of disabled adults and severely disabled children. The third demonstration will offer home and community-based services for children currently residing in psychiatric facilities. The fourth demonstration will test methods to address shortages of community direct care workers.

### Medicaid Coverage for Spouses of Disabled Individuals

The Budget proposes to give States the option to extend Medicaid coverage for spouses of disabled individuals who return to work and are themselves eligible for Supplemental Security Income benefits. Under current law, individuals with disabilities might be discouraged from returning to work because the income they earn could jeopardize their spouse's Medicaid eligibility. This proposal would extend to the spouse the same Medicaid coverage protection this Committee was instrumental in offering to the disabled worker.

### Extension of the QI-1 Program

Under current law, Medicaid programs pay Medicare Part B Premiums for qualifying individuals (QI-1s), who are defined as Medicare beneficiaries with incomes of 120% to 135% of poverty and minimal assets. The Budget would continue this premium assistance for five years.

### Transitional Medicaid Assistance (TMA)

TMA provides health coverage for former welfare recipients after they enter the workforce. TMA allows families to remain eligible for Medicaid for up to 12 months after they lose welfare related Medicaid eligibility due to earnings from work, and was scheduled to sunset in September 2002. TMA has been extended until June 30, 2003 through the appropriations process. This budget proposal would extend TMA for five more years, costing \$400 million in FY2004, and \$2.4 billion over five years. This program is an important factor in establishing independence for former welfare recipients by providing health care they could not otherwise afford.

We are also proposing modifications to TMA provisions to simplify it and make it work better with private insurance. These provisions include:

- States will be given the option to offer 12 months of continuous care to eligible participants.
- States may waive income-reporting requirements for beneficiaries.
- States that have Medicaid eligibility for children and families with incomes up to 185 percent of poverty may waive their TMA program requirements.
- States have the option of offering TMA recipients “Health Coupons” to purchase private health insurance instead of offering traditional Medicaid benefits.

#### State Children’s Health Insurance Program (SCHIP)

As you know, SCHIP was set up with a funding mechanism that required States to spend their allotments within a three-year window after which any unused funds would be redistributed among States that had spent all of their allotted funds. These redistributed funds would be available for one additional year, after which any unused funds would be returned to the Treasury. An estimated \$830 million in FY 2000 funds are expected to go back to the Treasury at the end of FY2003. The Administration proposes that States be permitted to spend redistributed FY2000 funds through the end of FY2004. Extending the availability of SCHIP allotments would allow states to continue coverage for children who are currently enrolled and continue expanding coverage through HIFA waivers.

#### Medicaid Drug Rebate

The current Medicaid Rebate methodology establishes rebates to state Medicaid agencies based in large part on the drug manufacturer's reported best price. The best price component of pharmaceutical rebates requires that the discounts that private sector purchasers are able to negotiate with pharmaceutical manufacturers also be given to Medicaid. It has been claimed that this provides a disincentive for drug manufacturers to give discounts to private sector purchasers. The Administration is interested in working with this Committee, the House Energy and Commerce Committee and the Finance Committee to explore policy options to address this issue.

### **Empowering America's Families**

#### Reauthorization of Temporary Assistance for Needy Families (TANF) and the Child Care Development Fund

Building on the considerable success of welfare reform in this great nation of ours, the President's FY2004 budget follows the framework proposed in the FY2003 request which includes the reauthorization of TANF. We applaud passage of H.R. 4 and are committed to working with both the House and the Senate to ensure the legislation moves quickly through the process and is consistent with the President's Budget. The President's proposal includes five years of funding for the TANF Block Grants to States, Tribes, and Territories; Matching Grants to Territories; and Tribal Work Programs at current levels. In addition, the FY2004 budget reinstates authority for supplemental population grants at \$319 million each year; restore transfer authority to the Social Service Block Grant of up to 10 percent; as well as funding the \$2 billion Contingency Fund with modified maintenance of effort and reconciliation requirements to make it more accessible for States.

The central focus of the proposal strengthens work requirements while allowing States greater flexibility to define activities that will lead toward self-sufficiency. The Bonus to Reward High Performance States would be redesigned to provide \$100 million a year for bonuses for employment achievement. We propose replacing the bonus to reduce out-of-wedlock birth with a new initiative to fund research, demonstrations, and technical assistance activities primarily targeted to family formation. Our proposal includes \$100 million for matching grants, also focused on building strong families and promoting healthy marriages. In addition, the budget proposes to reauthorize state abstinence education grants for five years at \$50 million annually to further assist with reducing the number of out-of-wedlock pregnancies, reducing the spread of STDs, and helping teens make healthy life choices. These proposals demonstrate that this Administration is committed to strengthening foundations for our children and supporting programs that will empower persons who have not been able to work, for any number of reasons, to achieve self-sufficiency.

Hand in hand with these efforts, the President's FY2004 budget also follows the framework established in the FY2003 budget and requests reauthorization of the Child Care and Developmental Block Grant Act and the Child Care Entitlement to assist States in meeting the critical child care needs of families.

#### Increasing Support for Children in Foster Care

In a continuing effort to improve the lives of children who are at risk of abuse and neglect, this Administration is proposing a child welfare financing option that States can use to improve their child welfare service systems. This plan will allow States to choose a fixed allocation of funds

over a five-year period rather than the current entitlement funding for the title IV-E Foster Care program. Participating States will receive their funds in the form of flexible grants which could be used for a wide array of child welfare-related purposes, such as child abuse and neglect prevention, maintenance and administrative payments for foster care, child welfare training, and family support. The flexible funding will allow States to develop innovative plans that can be tailored to meet the needs of their child welfare populations. States that elect this option and experience emergencies affecting their foster care systems may apply for access to additional funding from the TANF contingency fund.

The Administration is proposing a nearly \$5 billion budget for Foster Care in FY 2004, an \$89 million increase over last year's request. Not only will these funds support the child welfare program option, but they also will be used to provide payments for maintenance and administrative costs for more than 240,000 children in foster care each month, as well as payments for training and child welfare data systems.

The Adoption Incentives Program has been successful in contributing to the substantial increase in the number of children who are adopted from the public foster care system in recent years. The President's FY2004 budget request includes reauthorization of this important funding. Additionally, we propose changes to the incentive system to target older children, who despite the overall gains in adoptions constitute an increasing proportion of the children waiting for adoptive families. The President's budget request for the Adoption Incentives Program is \$43 million.

Another important issue we face with foster care is the transition for children out of these programs. Last year, nearly 20,000 children aged out of the foster care system. In order to assist these at-risk young adults, the President is committed to maintaining the Independent Living Program, which provides a variety of services for youth who will likely remain in foster care until they turn 18 and former foster children between the ages of 18 and 21. The President's budget request for the Foster Care Independence Program is \$200 million. This request includes \$60 million to provide participants with up to \$5,000 for college tuition or vocational training to youth who age out of the foster care system.

Additionally, the Administration continues its commitment to the Promoting Safe and Stable Families Program by requesting to \$505 million to assist States in coordinating services related to child abuse prevention and family preservation. This important program also helps to promote adoption and provides post-adoption support to families.

#### Child Support Enforcement

Related to my commitment to strengthening America's families, I am proud to tell you that our Child Support Enforcement program has made some impressive gains. Child support collections hit a record \$20 billion in FY2002, serving an estimated 17.1 million child support cases and in FY2001, over 1.6 million paternities were established or acknowledged.

The President's FY2004 budget will build on this considerable success. Legislation will be proposed to enhance and expand the existing automated enforcement infrastructure at the Federal and State level and increase support collected on behalf of children and families. For

example, States can better benefit from Federal data systems to freeze and seize assets in multi-state financial institutions and to garnish insurance settlements in order to satisfy past due child support. In addition, gaming winnings will be subject to intercept for past due support. When combined with the opportunities to increase child support outlined in the President's FY2003 budget (expanded passport denial, offset of certain Social Security benefits, optional pass through of child support to families on TANF, among others) these proposals offer an impressive \$7.5 billion in increased child support payments to families over 10 years. The budget also recognizes that healthy families need more than financial support alone and increases resources for the Access and Visitation Program to support and facilitate non-custodial parents' access to and visitation of their children.

### **Head Start**

The President's budget includes \$6.8 billion for Head Start. This level will increase enrollment of children in those areas of the country with the greatest unmet need. This budget proposal will continue to focus on school readiness of Head Start programs.

### **Responsible Fatherhood and Healthy Marriages**

The President's budget also proposes \$20 million for promotion and support of responsible fatherhood and healthy marriage. This funding will promote and support involved, committed, and responsible fatherhood and encourage the formation and stability of healthy marriages.

### **President's Management Agenda**

I am committed to improving the management of the Department of Health and Human Services, and I realize that as we work to improve the health and well-being of every American citizen, we also need to improve ourselves. The FY2004 budget supports the President's Management Agenda and includes cost savings from consolidating administrative functions; organizational delayering to speed decision making processes; competitive sourcing; implementation of effective workforce planning and human capital management strategies; and adoption of other economies and efficiencies in administrative operations. We have also included savings in information technology (IT) which will be realized from ongoing IT consolidation efforts and spending reductions made possible through the streamlining or elimination of lower priority projects. I am also very excited about the IT infrastructure consolidation which should be fully implemented by October, 2003, that will further reduce infrastructure expenditures for several HHS agencies.

### **Improving the Health, Well-being and Safety of our Nation**

Mr. Chairman, the budget I bring before you today contains many different elements of a single proposal. What binds these fundamental elements together is the desire to improve the lives of the American people. All of our proposals, from building upon the successes of welfare reform to protecting the nation against bioterrorism; from increasing access to healthcare, to strengthening Medicare and Medicaid; all these proposals are put forward with the simple goal of ensuring a safe and healthy America. I know this is a goal we all share, and with your support, we are committed to achieving it.